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TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER
September 23 2005 ISSUE

¶1. Summary. Each week, Embassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Credit Blacklist Review;
- IMF Report on South Africa;
- IMF Increases Growth Prospects for Africa;
- Business Confidence Up Despite Oil Prices;
- Water Price Increases Expected;
- Manuel Complains About SMME Underspending; and
- SA Concludes Free Trade Agreement with EFTA.

End Summary.

CREDIT BLACKLIST REVIEW

¶2. The Department of Trade and Industry (DTI) introduced a new clause in the National Credit Bill, still being considered by Parliament, requiring DTI to produce regulations on how the credit bureaus maintain, verify and remove information about consumer debt. Proponents of removing all negative credit data from credit bureaus' databanks assert that blacklisting results in further indebtedness of the poor, who are then charged much higher interest rates using unconventional loan sources. DTI proposals include the deletion of default and judgment information for amounts under R100 within the first three months of the regulations' implementation and a one-time deletion of information on paid-up judgments older than three years. Source: Business Day, September 19.

IMF REPORT ON SOUTH AFRICA

¶3. The International Monetary Fund (IMF) released its annual Article IV report on South Africa, projecting 3.4 percent growth over the next five years without any major policy interventions. The IMF report praised the short-term South African economic outlook, but noted that South Africa faces major long-term challenges, namely high unemployment, widespread poverty and high prevalence of HIV/AIDS. Several recommendations for increasing economic growth and job creation included: relaxing centralized collective bargaining, simpler minimum wage system, and streamlining dismissal procedures; further liberalization of tariffs; and increased privatization of state-owned enterprises. The report described several possible growth scenarios, with one scenario accelerating structural reforms (labor market reform, trade liberalization, public enterprise reforms with increased privatization) and another scenario highlighting South Africa's public sector debt sustainability. The IMF report asserted that if accelerated reforms were enacted, South African growth would reach 5.5 percent by 2010 and the unemployment rate would fall to 18.3 percent from its current level of 26.5 percent. The scenario testing of South Africa's debt sustainability concluded that South Africa's external debt position and financing needs are robust to a range of shocks, reflecting a relatively low level of debt and favorable debt structure. Source: Sunday Times, September 18; Business Day, September 19; www.imf.org.

IMF INCREASES GROWTH PROSPECTS FOR AFRICA

¶4. Despite HIV/AIDS, the working-age population in sub-Saharan Africa should increase substantially in the next 40 years, holding out welcome prospects for faster growth and healthier investment, according to the International Monetary Fund (IMF). In its twice-yearly World Economic Outlook, the IMF predicted that sub-Saharan African economic growth should reach 5.9 percent in 2006, compared to 4.8 percent and 5.4 percent in 2005 and 2004, respectively. Growth of 5.9 percent would be the strongest expansion in sub-Saharan Africa since the early

1970s. The IMF attributed the expected slowdown in 2005 to weaker rises in non-oil commodity prices than were enjoyed in 2004, notably in the cotton sector. Favorable 2006 growth prospects are explained by the start of operations at new oil production facilities in Angola and Mauritania and higher oil production in Nigeria. People of working age today account for slightly under 55 percent of the overall population, whereas that figure was closer to 50 percent in 1990. But in 2050, according to the IMF, sub-Saharan Africa's working-age population should constitute 65 percent of the total. The report described South Africa's prospects as favorable, with growth projected at 4.3 percent in 2005 from 3.7 percent in 2004, but decreasing to 3.9 percent in 2006. Risks to South Africa's growth include deterioration in commodity export prices, elevated housing prices and high unemployment. Nigerian growth is expected to slow to 3.9 percent this year from 6 percent in 2004, and improve to 4.9 percent in ¶2006. Source: SAPA-AFP, Business Report, September 22.

BUSINESS CONFIDENCE UP DESPITE OIL PRICES

¶5. Business confidence rose to near 24-year highs in the third quarter, buoyed by strong domestic demand and low interest rates, despite steep oil prices and domestic strikes. The index, which is compiled by the Bureau for Economic Research at Stellenbosch University, and sponsored by Rand Merchant Bank (RMB), rose to 86 points in the third quarter 2005, compared to 82 in the previous quarter. Business confidence has been in positive for 15 successive quarters, and the index reached a 23-year record of 88 in the third quarter of 2004. Confidence in the manufacturing sector increased in the third quarter, to 68 from 61 in the second quarter, surprising many analysts. During the previous 18 months business confidence in manufacturing remained in the low 60s, far below other sectors, which had readings between 80 and 90. The strong rand over the past three years has impacted exports of the manufacturing sector (accounting for about 16 percent of gross domestic product (GDP). The recovery in the manufacturing sector has also been reflected in Statistics SA's latest GDP figures. The sector grew 7.3 percent in the second quarter, after contracting 1.9 percent in the first quarter. Confidence rose in four out of five of the sectors covered for the index. In addition to the manufacturing sector, new vehicles dealers' confidence increased to 99 from 94 in the second quarter. The building sector recorded confidence of 94, wholesalers' confidence rose to 84, while retailers' sentiment remained largely unchanged at 85. Source: Business Day, September 21.

WATER PRICE INCREASES EXPECTED

¶6. The South African government was considering increasing water prices to reduce waste by the country's bulk water users, according to Water Affairs and Forestry Minister Buyelwa Sonjica. Price increases were likely to come into effect with the new national water-pricing strategy in July 2006. The expected increases will affect commercial farmers, municipalities, electricity utility Eskom, forestry companies and companies such as Sasol. The changes will apply to raw or untreated water. Commercial farmers currently pay about 3 rand cents a cubic meter to extract water for irrigation, one of the lowest costs in the world, considering government's expenditure on infrastructure such as dams. Irrigation accounts for 50 percent of South African water use. Sonjica said an increase in the tariffs was likely to force the industrial sectors to reduce their water use. The closing date for comment on the proposed reforms is September 30. Source: Business Day, September 21.

MANUEL COMPLAINS ABOUT SMME UNDERSPENDING

¶7. Finance minister Trevor Manuel said that the government had set aside R1.4 billion ($222 million, using 6.3 rands per dollar) in 2005 to help small, medium and micro enterprises (SMMEs), but not enough money was filtering through to the small business sector. Manuel's comments came on the same day that the Department of Trade and Industry (DTI) was to present to the cabinet a new strategy aimed at revitalizing the SMME sector. The strategy, which seeks to reduce red tape, improve access to finance for SMMEs, and advance black economic empowerment, is likely to result in extra funding request by DTI. However, Manuel seemed to think that the R1.4 billion was adequate, as the government had to focus its resources on other priority areas such as health, education and housing. Manuel stated that the days of granting tax incentives to large industrial projects that did not create jobs were over. The strategic investment program has been cut, after it created 7,000 direct and 110,000 indirect jobs. Treasury also cut plans to

introduce special tax incentives in the country's four industrial development zones, which the DTI had hoped would boost their investor appeal. Since their beginning in the late 1990s, the four zones (Coega, near Port Elizabeth, East London, Johannesburg and Richards Bay) have attracted less than R3.5 billion in planned investments despite the government spending more than R4 billion on building their infrastructure. Source: Business Day, September 22.

SA CONCLUDES FREE TRADE AGREEMENT WITH EFTA

¶8. South African exports will have duty-free access to European Free Trade Association (EFTA) members starting next year under a recently concluded free-trade agreement. EFTA members are Switzerland, Norway, Iceland, and Liechenstein. South Africa already agreed to a free-trade agreement with the European Union. The agreement allows South African clothing manufacturers to use imported fabric and still qualify for the duty-free and quota-free access to EFTA markets. Negotiations started early in 2003 and the goal is for the agreement to become effective July 2006. Southern Africa Customs Union negotiators look to restart free trade talks with the United States next week in Gaborone. Source: Business Day, September 22.

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